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Budgeting for A Stronger Banking System: Union Budget 2018-19 Opportunities for Banks

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***Abstract*—the Union Budget 2018-19 was presented by Finance Minister Arun Jaitley, focusing on strengthening agriculture, rural development, health, education, employment, MSMEs, and infrastructure development. Agriculture and Rural Economy: The government increased the MSP for all unannounced kharif crops to at least 1.5 times of their production cost. The volume of institutional credit for agriculture was increased to Rs 10 lakh crore. Health: The world's largest government-funded healthcare program, the National Health Protection Scheme, was announced to cover over 10 crore poor and vulnerable families, providing coverage up to Rs 5 lakh per family per year. Education: The government announced the setting up of Ekalavya Model Residential Schools to provide quality education to tribal children. A major initiative, "Revitalizing Infrastructure and Systems in Education (RISE) by 2022," was launched with a total investment of Rs 1,00,000 crore. Employment: The government contributed 12% of the wages of new employees in the EPF for all sectors for the next three years. The Budget also proposed amendments to the Employees Provident Fund and Miscellaneous Provisions Act to reduce women employees' contribution to 8% for the first three years of their employment. Infrastructure: The government allocated Rs 5.97 lakh crore for infrastructure development, with a focus on road, rail, and air transport. The Bharatmala Pariyojana was announced to develop 35,000 km of road construction in Phase-I at an estimated cost of Rs. 5,35,000 crores.**

***Index Terms*—Union Budget, Macroeconomic, GDP, MSME, RSBY, TREDS, PMGSY**

I. INTRODUCTION

In a bank - driven economy, every union budget opens up innovative business opportunities, more so for Public Sector Banks (PSBS) having deeper penetration in rural areas. Union Budget 2018-19 (UB19) is designed to benefit people at the bottom of the pyramid. Resource allocation to different sections of the population in UB19 has been inversely proportional to their economic well - being. The upper and middle classes have been taxed to cross - subsidies benefits spread to the hinterland. Every budget has winners and losers and neutral section. In UB19 the winners are deprived sections, the losers could be affluent sections, and middle class as often are the victim of neutrality. It is justified given the inequality of income matrix. Fixed in a historic fiscal situation with nuances of Goods and Services Tax (GST) and the lingering impact of demonetization, it is a significant challenge to do allocative justice of scarce resources to reach out to wider sections. Hence, non - budgetary resources have been drawn in sufficient measure to provide sops to the target group. Moreover, the overwhelming farmer distress, impending general elections, nascent revival of growth, continuing twin balance sheet predicament, high expectations of public for relief and commitment to contain fiscal prudence, rising oil prices with resulting inflationary trends are indeed some of the key challenges.

The cautious optimism portrayed in Economic Survey and policy pointers needed an accommodative approach to harness emerging potentiality with thrust on employment- intensive growth. Thrust on using women power to steer the economy is yet another dimension. The affirmative views aired at World Economic Forum (WEF) against protectionism and living up to the optimism of IMF and World Bank on the growth prospects also calls for the more calibrated open economy. Thus, the balancing between long - term interests of continuing reforms and need to provide quick appeasement to distressed sections needs a knack of combining strategic and tactical skills.

Given the fact that it is the last full budget of NDA government, laudable efforts have been rightly made to deliver better value to the last man in the society. However, the challenge lies in the speed and efficiency in carrying the benefits to the target group. The

Jandhan, Aadhaar and Mobile (JAM) trinity continues to be the epicenter of delivery of benefits to larger sections of the society. Therefore, the impending role of banks continues to be significant in the transformation of hinterland to test the allocative efficiency. Hence, the proactive contribution of the banking system in funding various programs will be able to provide opportunities to step up revival. A look at the budgetary allocations can help identify opportunities for growth of banks.

II. OBJECTIVES

- To Analyze the Budget Allocation to Macroeconomic dimensions.
- To Identify the areas Reinforcing infrastructure projects, Thrust on farm sector
- To Analyze Empowering MSME, RSBY, Education and social sectors, Salaried class and senior citizens.

A. Macroeconomic dimensions.

Despite the historical structural reforms, the economy has done well recording an average growth of 7.5 percent in the last three years. It could have continued to galvanize overseas confidence with a good inflow of overseas funds taking the forex reserves to US $ 415 billion. Moreover, the global think tanks including multilateral lending institutions such as World Bank and IMF continue to affirm positive outlook on the prospects of Indian economy. IMF projects growth to reach 7.4 percent in FY18. It is still ranked as one of the fastest growing economies ranked as the 7th largest economy and is well poised to become the 5th largest economy very soon. Manufacturing and is back on growth and service sector has recorded growth of over eight percent. In terms of purchasing power parity, it is already the 3rd largest economy. The size of the economy is estimated at US $ 2.5 trillion from the earlier level of US $ 2.2 trillion. India is thus firmly on course to achieve high growth of 8 percent.

GDP is set to grow at 7.2 to 7.5 percent during the second half of fiscal FY18 and is likely to record 7 - 7.5 percent growth during FY19. The fiscal deficit is planned to be capped at 3.3 percent of GDP during FY19 while ending it at 3.5 percent in FY18 as against its targeted range 3.2 percent. The target of reaching 3 percent fiscal deficit is now planned to be achieved during 2020-21. The revenue deficit at 2.6 percent of GDP in FY18 as against the original target of 1.9 percent is a worrying factor but is expected to be reined at 1.9 percent in FY19.

The other positive factors of the economy include an incremental increase in tax revenues by 16.6 percent compared to 15.3 percent recorded in FY17. The total expenditure is set to be 10.1 percent as against 12.3 percent during previous fiscal. The capital expenditure is targeted to be raised by 9.9 percent providing ample opportunities for banks to capture additional business. Similarly, the gross tax revenues stagnating at 10 percent since 2008 has begun to look up and has reached 11.6 percent due to GST and demand surge.

In the background of such positive headwinds in the economy, notwithstanding external downside risks and inflationary behavior and a higher allocation of resources in various sectors, banking industry can look for multiple projects taking shape in the medium to long term. The incremental business can emanate from a cross - section of sectors spanning across infrastructure, industry, MSME, agriculture, fisheries, aquaculture, health, education, housing, affordable housing, tourism, aviation, digitization, social sectors, etc. With signs of the revival of exports, and corporate sector settling down in the GST era, post could be a revival of demand for credit. The challenge for PSBs is to regain the ground lost to other peer banks and non - banks in the last three years. A look at key sectors of the economy and allocation of funds in UB19 will indicate the areas where banks could focus.

B. Reinforcing infrastructure projects

UB19 provides INR 5.97 lac crores as against INR 4.94 lac crores provides in FY18 for infrastructure development to cover employment - intensive activities such as building the road network, airports, railways, ports, inland waterways and other transport network intended to improve speed and efficiency of movement of goods and services and quality of life of people. In addition to completion of national highways of 9000 kilometers during FY18, road construction activity will be accelerated further with the initiation of the first phase of 'Bharatmala' road project. It is intended to provide seamless connectivity of interior and backward areas and borders of the country and will have cover 35000 kilometers of roads in the first phase.

Supplementing efforts with Pradhan Mantri Gram Sadak Yojana (PMGSY) with a target of creating 28.35 crore man - days of work with a financial outlay of INR 19000 crores; and ongoing Mahatma Gandhi National Rural Employment Guarantee Program (MGNREGA) scheme with a target of 2.6 lac kilometer of rural roads, will be able to provide a strong infrastructure in the coming years. In the same league of building infrastructure, 99 smart cities are identified. Out of which work on some of the smart cities have been executed to the tune of INR 2350 crores and works of INR 20852 crores are well under progress at various stages.

Also, the thrust on affordable housing under Pradhan Mantri Awas Yojna (PMAY) gets renewed emphasis where 49 lac dwellings will be constructed, and the outlay for the program has been raised to INR 33000 crores, of which INR 21000 comes from budgetary support and rest from extra - budgetary support. An affordable housing fund (AHF) will also be created under the aegis of National Housing Bank (NHB) drawing funds from priority sector shortfalls and by floating fully serviced bonds authorized by the government. Such serial measures and rise in the allocation of funds by 21 percent should provide an immense incremental rise in the opportunity to banks in all parts of India. The enhanced infrastructure activity may lead to demand for road building material, related trade and funding opportunities.

C. Thrust on farm sector

Keeping in view the increasing distress of farm sector the entire focus of UB19 has been on this underserved community. An allocation of INR 15 lac crores has been made to ameliorate the sufferings of farmers. Most importantly, it addresses the non - viability of farming activity in some agro - commodities through a proposal to raise the Minimum Support Price (MSP) to 1.5 times the cost of farming the produce, in a way to reward the farmers with at least a cushion of 50 percent income. It may go a long way in the quest to double the farm income intended to be achieved by 2022.

Launching ' Operation Greens ' to help vegetable vendors. get the right price and marketing support. In a bid to do so, 22000 village ' haats ' (temporary markets in rural villages) will now be converted into formal marketplaces known as ' Mandis ‘. The agriculture credit target of banks has been raised to INR 11 trillion from INR 10 trillion set in the previous year, but the focus of banks should be to lend to investment projects instead of rolling over crop loans. Out of the outstanding farm loans, 75 percent are crop loans, most of them on a rolling basis that does not create any infrastructure to strengthen agriculture for a sustained long- term growth. Unless the capex (Capital Expenditure) is pumped into agriculture sector the capacity increase will not be sufficient. The agrarian economy is intended to be stimulated by creating demand for consumption. Fast moving consumer goods patented by companies like Dabur, Hindustan Unilever, ITC, Patanjali and other brands allying with the rural network of traditional 'kirana' shops can play a constructive role in making the rural economy better. In gist, agriculture, rural spends, labor subsidies, outlay on rural infrastructure together have the potential to create around 321 crore man - days of employment, if implementation could be ensured.

D. Empowering MSME sector

It is a globally established fact that employment intensive MSME sector is the lifeline of any economy and more so for banks to step up their bottom line. UB19 uses multiple levers to boost MSME sector which has been sagging for the last two years impacted by demonetization and GST. Import duties on some of the electronic gadgets - Smartphones, TV parts, LCD, LED panels. The other items such as perfumes, juices, edible oils and many others. have been raised between 5-10 percent. This should spruce up domestic demand and ' Make in India 'objective. The corporate tax on firms with a turnover up to INR 250 crores has been brought down from 30 percent to 25 percent to benefit the entire class of MSME which forms part of 99 percent of units filing tax returns. The limit earlier was only INR 50 crores.

The target for MUDRA loans is set at INR 3 lac crores. Introduced in April 2015, banks have so far disbursed loans under the scheme to the tune of INR 4.6 lac crores, of which 76 percent of loans have gone to women beneficiaries. Skill building efforts are intensified to provide competent and skilled manpower to the sector. Further, a sum of INR 3794 crores is earmarked to provide credit and capital support and interest subsidy. The allocation to the textile sector is raised from INR 6000 crores to INR 7148 crores.

Under Pradhan Mantri Kaushal Kendra (PMKK) scheme, the budgetary allocation has been raised to INR 3400 crores in FY19 as against the revised budget allocation of INR 2356.22 crores during the current fiscal. So far 306 PMKKs have been set which will be further accelerated. A model PMKK will be set up in each district to impart training and create employability. Use of FinTech companies and venture capital funds will be increased to benefit MSME.

Efforts will also be made to link GSTN network with Trade Electronic Receivables Discounting Systems (TREDS). Banks need to provide online lending facilities to MSME entrepreneurs. Finding higher profitability and lower non - performing loans, Non - Bank Finance Companies (NBFCs) are funding more to MSME sector. Therefore, a policy will be announced on dealing with NPAS (Non - Performing Assets) in MSME sector to enable better funding to the sector in future.

E. Rashtriya Swasthya Bima Yojana (RSBY)

An inclusive National Health Protection Scheme (NHPS). has been launched to cover ten crore poor and vulnerable families (approximately 50 crore beneficiaries) providing coverage up to INR 5 lacs per family per year for secondary and tertiary care hospitalization. It will be world's largest government - funded health care program It is a never before scale of health coverage proposed to be given to such a large section of the population. The beneficiary’s poor families forming bottom of the pyramid of the economy will get free treatment at secondary and tertiary hospitals. Hitherto, RSBY used to provide health insurance up to INR 30000 at a nominal premium of INR 30 which was inadequate to cover any medical procedures.

There are at present 36.3 million RSBY cardholders who will get expanded to cover 500 million, and contributions can be shared between federal and state governments. The modalities are yet to be made public, but such a massive health care program will provide ample opportunities to banks to fund hospitals, medical equipment units, medical devices and consumable goods for health care. A strong coordination with the network of hospitals and government agencies could spawn new avenues for cross- selling banking products.

Further ' Ayushman Bharat ' program is aimed to bring about an integrated health care with primary, secondary and tertiary care system converging into a mission to promote the health of the society. The National Health Policy 2017 is calibrated to set up 1.5 lac wellness centers as the foundation of India's health system. In addition to calling upon corporate to lend assistance under corporate social responsibility, an outlay of INR 1200 crores is provided in UB19 to ensure inclusive health care. With consolidation mooted in general insurance sector, there will be new players active in the field providing business. This brings a new dimension to the healthcare industry that needs to be taken cognizance by the banking sector. Thus, Ayushman Bharat is holistically intended to build New India 2022 and ensure enhanced productivity, well - being and avert wage loss and impoverishment.

F. Education and social sectors

Right from education, well - being, women welfare, a large number of benefits have been extended to poor and underserved community in UB19. Financial allocation to National Social Assistance Program is raised to INR 9975 crores targeted to benefit old widows, orphaned children and deprived community. 80 million free new gas connections and 40 million free electricity connections will be provided as continuing part of social sector benefits.

Thrust on education is on providing the best education to tribal and every block having scheduled tribe population of over 50 percent will have Eklavyya Modern Residential Schools by 2022 on the lines of Navodaya Schools. To continue social transformation, allocations for the benefit of SC / STs will be raised from INR 39235 crores in FY18 to INR 56619 crores in UB19.

Revitalizing Infrastructure and System in Education (RISE) project will have an investment outlay of INR 100000 crores in next four years to bring about quality change in education. Higher Education Financing Agency (HEFA) would be structured to fund the initiative. To step up research in higher education, Prime Minister's Research Fellows (PMRF) will be introduced where 1000 best students drawn from premier institutes will conduct research and add value to the society and will set up 24 new government medical colleges and hospitals by upgrading existing district hospitals.

State level plans of INR 77,640 crore is approved for the project ' AMRUT focusing on providing water supply to all households in 500 cities and work is in progress to accomplish the task. The allocation for Digital India program is doubled with an outlay of INR 3073 crores to promote cyber security, artificial intelligence and robotics One lac villages have been connected with high – speed

Optical fiber network in phase - 1 that enabled 20 crores broadband access. It is proposed to provide five lac wifi hotspots for which an outlay of INR 10000 crores has been proposed in FY19. Adoption of 5G technology is also to be initiated to upgrade connectivity.

G. Salaried class and senior citizens

With no change in tax slabs, there is an insignificant change in personal taxation, and taxpayers in higher income bracket may have to shed more due to increased cess .The cess on income tax above INR 10 lacs is raised from 3 percent to 4 percent. However, they now get a standard deduction of INR 40000 after in chiding transport expenses reimbursement of INR 1500 per month and medical expenses reimbursement of INR 15000 annually. The effective relief is nominal, but senior citizens are to benefit more. For them, the exemption limit of interest on bank / post office deposits is raised from INR 10000 to INR 30000. Senior citizens also get assured 8 percent interest on fixed deposits up to INR 15 lacs (raised from INR 7.5 lakhs) placed under Pradhan Mantri Vaya Vandana Yojana (PMVVY). Medical expenses relief to senior citizens is raised from INR 30000 to INR 50000 under section 80D Similarly, the limit for exemption of medical expenses for critical / specified diseases under section 80DDB is raised from INR 60000 to INR 100000 for senior and very senior citizens. Long - term capital gains tax of 10 percent is levied on gains exceeding INR 100000 from April 1, 2018

Fixed in a historic fiscal situation with nuances of GST and the lingering impact of demonetization, it is difficult to ensure allocative justice of scarce resources to reach out to such wider sections Moreover, the overwhelming farmer distress , impending general elections , nascent revival of growth , continuing twin balance sheet predicament , high expectations of public for relief and commitment to contain fiscal prudence , rising oil prices with consequential inflationary trends are indeed some of the key challenges to which UB19 has been calibrated . While there is a host of allocation of funds in UB19 to several ongoing and new micro schemes which are not included here as these are not relevant to banks, the attempt is to include all those components of the budget that are pertinent to the banking industry.

III. CONCLUSION

After a protracted slowdown in bank credit, it has started looking up now Bank credit recorded a growth of 10 percent during FY18 (up to December 2017) as against only 4 percent in the corresponding period during FY17. As a result, the sectoral credit growth to agriculture and allied activities too increased by 9.5 percent from 8.2 percent recorded in the previous year. Credit to industry increased by 2.1 percent compared to a contraction of 4.3 percent during the same period. Credit to the services sector increased by 14.7 percent, up from 8.3 percent Personal loans increased by 18.9 compared to 13.5 percent. The all sectoral credit deployment trends amply indicate its propensity to grow with massive capital infusion in offing and Insolvency and Bankruptcy Code (IBC) 2016 set to manifest tangible results soon with over a year of its operations. Seen from all perspectives, banks are on a better footing to exploit the potential of business stemming from the budget proposals.

To fund such revival of demand for credit, some banks have even begun to raise deposits rates SBI recently raised its deposit rates by 50-140 basis points on retail deposits on the lines of bulk deposit done earlier. According to ICRA (Investment Information and Credit Rating Agency), with credit deposit ratio going up, there will be pressure on resources that can increase deposits rates. There was an incremental rise in credit during the fiscal stands at INR 2.02 trillion against the rise in deposits to the tune of INR 1.27 trillion creating a gulf as a result, other banks may follow suit.

PSBs which had paused their lending operations due to the stress of managing NPAs can foresee better credit demand from the intense activities in trade, commerce and industry in the coming quarters. Agriculture, MSME and housing sector in retail can provide robust growth opportunities both on assets and liabilities provided banks can coordinate with related entities and offer a competitive value proposition. Analyzed from all angles, UB19 is a promising budget for banks that can precisely set sight on business opportunities Banks need to adopt action- oriented strategies to see the emerging opportunities to stay competitive

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